THE FINAL REPORT OF THE MONETARY COMMISSION.

The avowed purpose of the Indianapolis Monetary Convention was to select a "non-partisan" commission composed of men of "such high attainment and character as not only to allay all suspicion of any influence from class or sectional interest but of such fitness as to inspire confidence in the mind of the fair-minded citizen of the republic that its work will be done for the permanent welfare of the nation." To this end eleven men of recognized ability were chosen and assigned the duty of preparing a "plan" which could be embodied in such legislation as would "place our monetary system on a permanently sound basis." A "plan" having been prepared and submitted, the commission then set about "to marshal those facts and arguments which truly supported" their conclusions. These constitute the "Final Report" of the commission, a book of some six hundred octavo pages. Professor Joseph French Johnson, of the University of Pennsylvania, has pointed out in the ANNALS* what appear to him to be the patent defects of the proposed "plan," and it is not the purpose of this article to discuss the merits of its proposals. Assuming that they have merit, the present purpose is to examine the presentation of "facts and arguments" in the "Final Report."

That the report contains much of historical value and many suggestions of interest to the students of finance and monetary reform is not to be questioned. But in estimating the value of a treatise it is proper to notice the methods employed in its preparation. In so far as it purports to be an "exposition" of "facts," it is incumbent not only to examine whether the statements be true, but also whether all of the facts necessary to an understanding of the subject are included. If the treatise does not stand this double test

* March, 1898.

then any conclusions which are based on these statements will be unsafe as premises for further reasoning. Again, the theories employed as premises must take account of all the facts and explain all of the phenomena within the field of investigation. If they do not they will serve only to bewilder and confuse instead of leading to a better understanding. Further, the processes of reasoning must be logical; for if they are not the truth of the facts employed and the conclusiveness of the premises cannot save the conclusions. It is not to oppose any of the theories employed or to deny the truth of any of the conclusions reached, but to submit the statements, theories and conclusions contained in the report to the test proposed, as a means of estimating its value, that this paper is written.

The Indianapolis Monetary Convention in the course of deliberations on the prerequisites of "a consistent, straightforward and deliberately planned monetary system" reached the following conclusions:

"*First*, That the present gold standard should be maintained.

"*Second*, That steps should be taken to insure the ultimate retirement of all classes of United States notes by a gradual and steady process.

"*Third*, That a banking system be provided which should furnish credit facilities to every portion of the country and a safe and elastic circulation."*

Upon these three propositions rest both the plan proposed and the final report. As the first is essential to all that follows, and as it is subject to greatest controversy, it would seem necessary, therefore, to establish it beyond a reasonable doubt. The first labors of the commission in the preparation of the final report are devoted to its demonstration; therefore, our examination of methods employed will begin here.

Upon investigation it will be found that the form of reasoning employed to establish the conclusion "that the

* P. 8.

present gold standard should be retained" is *a priori*. The syllogism is as follows:

First premise:—A perfect standard is one which will "place both debtors and creditors in exactly the same absolute and the same relative position to each other at the end of the contract that they occupied at its beginning."

Second premise:—While, in practice, no standard can meet these requirements, the "single gold standard" meets them more nearly than any other.

Conclusion:—Therefore, the single gold (the present) standard is more nearly perfect than any other and should be retained.

The conclusion from the premises seems unassailable. But in this as in all examples of *a priori* reasoning the inquiry is pertinent: Are the premises true? The major premise is quite generally admitted. Relying on this fact the commission simply postulate it without attempt at argument or demonstration and for the present purposes we will accept it in the form stated as the norm for our judgment of a perfect standard. This leaves the second premise only to be discussed. The truth of the second premise is denied by a very large number of thinkers; it cannot, therefore, be admitted without demonstration. On this account the commission proceed to its establishment.

In this connection, it should be noticed that the statement of the second premise, which is the present subject of inquiry, involves a comparison of the gold standard with all other standards; that it is premised as being "the most perfect;" and that the norm of perfection set up for judgment is found in the first premise. The commission seek to determine the higher degree of perfection of the gold standard by comparison and the gradual elimination of those standards which, judged by this norm, are found less perfect.

In this process it is first concluded that "owing to their durability, the precious metals are least likely to vary in

value on account of changes affecting themselves."* This conclusion excludes all base metals, paper and other easily destructible materials which have been used. Then a second conclusion is reached that "the choice of a standard lies between gold and silver."† By this, the field is again narrowed; all precious metals except gold and silver are eliminated. There are now four standards left to be considered, viz:—(1) the "combination standard" (advocated by some theorists) which would, by international agreement, make coins of such alloy of silver and gold as would absorb the money supplies of both; (2) the "bimetallic standard," which would use each metal, in turn, as a standard, whenever the coins made from the one metal or the other, as the case might be, should be of lower value—the metal to be coined under a system of free-coinage of both, with full legal tender qualities, at a fixed ratio; (3) the "the single silver standard;" (4) the "single gold standard." The first three of these are eliminated by the following process:

The "combination standard" is dismissed by showing that even when combined in an alloy there would be nothing to keep the metals at a parity in the ratio agreed upon and that consequently the value would tend, as before, to a wide divergence.

The "bimetallic standard" receives more attention; it is not so quickly set aside by the commission. It has had and still has many friends. Its advocates claim that it not only provides for the use of the entire stock of both metals available for coinage purposes, but also that under the bimetallic system the forces of supply and demand are set in operation in such manner that the values of the coins can not, and in practice do not, widely diverge; that the "bimetallic standard" makes provision against the defects of any "combination standard" which might be proposed, and therefore meets all of the objections urged on account of wide

* P. 97.
† Ibid.

divergence of value; that while the metal which is temporarily lower in value will, for the time being, be used as the standard yet, on account of the provision made in the "bimetallic system" for shifting the monetary demand from the higher to the lower, these values will keep so nearly together that no loss will be occasioned in business exchanges or the settlement of debts, on this account. In support of this theory they cite the quotations on gold and silver, and the history of the process of "shifting" from one standard to the other, during a long experience under the bimetallic system. They further claim that, by reason of this fact, when changes do take place, which affect the value of the metal that happens at the time to be the standard (the demand being shifted) there is little or no effect produced on prices unless the value of the other metal is also affected, and that in this case the one affected the least will be the standard; that "bimetallism," while it has only one standard at a time, has the benefit of a standard which in its operation includes the total available supplies of both metals, and will be least influenced by speculative movements. This they support by the data of business, the nearly corresponding movements of gold and silver values prior to 1873, the gradual divergence in values of gold and silver since that date, the data concerning the effects of speculation, the statistics of production of the precious metals, etc. Such are the arguments to be met and such the data to which we are referred in discussions involving a comparison of the two standards.

It is to be noticed that the commission do not attempt to overthrow these claims of the "bimetallists" by showing their premises to be incorrect, their reasoning illogical, or their conclusions contrary to the facts of monetary experience. They would eliminate the "bimetallic standard" by a process of indirection. Certain theories are offered in opposition. The first of these reads as follows: "We can not have two different standards of value, at the same time,

without having two sets of prices." * Does this theory accord with any of the facts of monetary experience? When the "bimetallic standard" was the one used, did we have two sets of prices or two scales for the liquidation of debts? If such was not the experience then the theory can be of little use in explaining the phenomena of that period. In the second place we will test it as a logical process. Does it, even if theoretically true, in any manner oppose the statements, logical processes, or conclusions of the bimetallist? It is only by a peculiar license of expression that the bimetallic system can be said to have "two standards" at any one time. Under bimetallism there never was more than one standard at a time, nor was this ever claimed by those who express themselves accurately. The theory proposed by the commission relative to "two standards" and "two prices," however true hypothetically, is wholly out of point. As no further use of the theory is attempted, as they leave the conclusion to be inferred, we pass to the next theory stated.

This is in form the following:

> "Even if gold and silver were bound together, changes in prices relative to them must necessarily take place if changes occur in the cost of production of articles exchanged against the double standard."*

This case is found to be entirely hypothetical. When brought to the test of fact we find that under bimetallism, gold and silver never were "bound together" in any other than a figurative sense, and a figure of speech unless given an exact scientific meaning is dangerous when used as a premise for argument. The only manner in which the two metals were ever bound together, in practice, under the bimetallic system was by operation of the forces of supply and demand. This being understood as the meaning of the commission, we will apply the test of its logical importance

*· P. 97.
† Ibid.

in argument. Whatever may be the theory of "cost of production" of articles exchanged against the "double standard" the theory would apply equally to each metal or both. It cannot be used, logically, to show the greater perfection of the one as compared with the other. One other expression should be noticed in the statement—the phrase, "the double standard." This expression, in order to do violence neither to fact nor to theory must be understood as having the technical meaning of "the bimetallic standard." The object of comparison being to determine which standard is more nearly perfect, this second theory can serve no logical purpose other than to direct the attention away from the issue.

The third theoretical statement directed against bimetallism is as follows:

> "Granting all that may be asserted by the advocates of international bimetallism, conceding that the values of gold and silver may be maintained at a fixed ratio to each other, it must be evident that the problem of a standard of deferred payments is not thereby solved; because it does not follow, even if gold and silver can be successfully tied together, that they together will always maintain the same exchange relations and the same level of prices with labor and with all other commodities." *

In considering this objection it must first be noticed that the commission, in "granting all that may be asserted by the advocates" of bimetallism, grant nothing which they claim. No claim of the bimetallists corresponds to the concession "that the *values* of gold and silver may be *maintained at a fixed ratio* to each other." Their contention is that, the *ratio of coinage* being fixed by law, the forces of supply and demand will cause the values in their *fluctuations* to approximate that ratio.

The only part of bimetallic theory which deals with a fixed ratio is that wherein the ratio of coinage is fixed by law and no one would say but that this might be

* P. 97.

maintained whatever the values of the metals. The second form of expression is "if gold and silver can be successfully tied together." This is another figure of speech to which the criticism urged above should be made. Therefore, though they purport to concede, for the sake of the argument, the theory of bimetallism no such grant is found in their statements and in so far as these statements might enter into the argument the conclusion would be invalid. But these statements do not enter into the argument; from a logical standpoint, they are purely linguistic overtures, and only amount to a misleading description of the system with which they are making the comparison. The argument stated is: Conceding the position of the bimetallist, it does not follow that the bimetallic standard will always maintain the *same level of prices*. Bringing this to a logical test we find that it states a different norm of judgment from that set up for the comparison in their first premise. Their second premise now under discussion, asserts that no standard can operate with perfection according to the rule stated in the first, but that gold approaches this *more nearly* than any other; now they would condemn the "bimetallic standard," because it would not operate with perfection according to that ideal. The point at issue is one of comparison; but no comparison is made. The argument put forth, therefore, has no logical place from any point of view. The statements and conclusion may be admitted as true, but still they would not be germane to the issue.

The fourth attack on bimetallism is that "we are forced to believe that bimetallism, national and international, is impractical."* This is left entirely without argument or attempt at demonstration.

The conclusion follows immediately, viz.:

> "If we are thus—as seems inevitable—forced to set aside the plan of attempting to regulate the values of gold and silver, at some ratio, then the choice is between a single gold, or a single silver standard."†

* P. 97.

† Ibid.

The question is certainly pertinent: Have the commission shown beyond a reasonable doubt that the "single gold standard" is more nearly perfect than the "bimetallic standard?" Without in any manner attempting to show, prior to reaching their conclusion, that the bimetallic theory is wrong or that their own theory accords with the facts of monetary experience, by a process that will not stand the test of reason, the "bimetallic standard" is eliminated and we are brought to consider the remaining two—the "single silver" and the "single gold" standard. We will therefore accept this conclusion in order that we may follow the process to the end.

The report now proceeds to its final comparison of standards. The form of argument used to show that gold is a better standard than silver is as follows: (1) By reason of the taking away of the "monetary demand" for silver, it has been subject at times to great changes in price.* (2) "No such sudden and erratic changes have taken place in the exchange value of gold."† (3) The conclusion is then stated as if logically following. It is scarcely necessary to call attention to the character of such an argument. The line of reasoning is, in short, that silver has been demonetized; therefore gold is the better standard. But, admitting that a demonetized metal may be used for purposes of comparison, the fact that it has fallen in value relative to gold proves nothing. The norm of judgment is quite a different one than that at first set up. When the first premise is adhered to another conclusion may be reached.‡

But with this step the commission deems that it has established the second premise to the main conclusion—"that gold is a more perfect standard than any other."

* "Losing a great part of its monetary demand, this large mass became heavy in value, and in its downward movement it showed possibilities of sudden rushes as it fell (like an avalanche) from one point of support to another lower down."—"Final Report," p. 99.

† P. 99.

‡ See *Journal of Political Economy*, March, 1897. "Gold and Silver in Terms of Commodities," by E. S. Meade.

"The conclusion, therefore" says the report, "is *irresistible*, that since it is desirable to choose a commodity as a standard which fluctuates least in its exchange value in short periods of time, for reasons affecting itself, *gold* must be that commodity."*

This conclusion having been reached, it might seem that further discussion of standards was unnecessary. But, in the conclusion just quoted, we find the important qualification "in short periods of time," which leaves out of consideration long time contracts, concerning which the whole argument about standards has arisen. It has been the fluctuations over long time periods that have led to charges of injustice, and to the whole question, "What is the more perfect standard?"

The commission appear to recognize that their case is not complete, for they now seek to justify the fluctuations of the gold standard over long periods. To meet the charge that such fluctuations have wrought great injustice to those who have made business ventures requiring a period of years for development, and the complaint that the gold standard has fallen very far short of the norm of perfection, another process of reasoning is employed. Comparisons are laid aside. Regarding long time contracts the commission affirm that "it should be kept in mind that it is not a proper function of government to step in and save men from the *ordinary risks* of trade and industry."† But what has the question in hand to do with "ordinary risks" of trade and industry? Are changes due to the acts of government in the adoption of a standard "ordinary risks?" Does a man in business ordinarily calculate on his properties depreciating 50 per cent in ten years owing to the enhanced value of the standard? But admitting that these are ordinary risks, then the theory proposed is directly opposed to the underlying purpose of the discussion. Does not the whole argument turn on the maintenance of a certain standard *by the government?* Was it not the

* P. 100.
† P. 103.

object of the convention to have the government to "step in" and act according to a "plan" to be proposed by *them*, in order to "place our monetary system on a permanently sound basis?" They see evils in our "present system," which make the conditions of business very uncertain and hard, and would have the government establish a system to correct them. This attempt at justification, therefore, when considered in the light of their own reasoning, is illogical throughout.

To reinforce their position they propose another argument —that losses occasioned by fluctuations of the standard are attributable to "inefficiency" and "lack of judgment" on the part of the business man. In the language of the report:

> "A government should no more appear in such cases to remedy the *inefficiency* of business men than to indemnify them for losses occurring in business, due to *lack of judgment* in other directions."*

The manufacturer who, in 1885, borrowed money to build his plant, on a ten-year loan, is chargeable with "inefficiency" and "lack of judgment" because in 1895, when the obligation becomes due, his product and his plant are worth only 60 per cent of their value in 1885. But the other side of the operation must also be taken into account—the creditor's gain on account of the fall in prices or the increased value of money during the ten years. The commissioners should have attributed this to the *greater efficiency* or *better judgment* of the creditor, but they prefer to call it an "unearned increment" which could not be rightfully claimed by anyone and therefore belongs as much to the creditor as to anyone else.

To show that we have here an unearned increment, a very striking argument is elaborated—a theory of "cost of production" that is *sui generis*. The commission, in discussing the functions of money, have shown that "value is a ratio;" that "the value of anything is the quantity of the

* P. 104.

other articles for which it will exchange;" that "the price of anything is the quantity of the standard for which it may be exchanged;" that "it depends merely upon the side looked at whether there has been a rise or fall in value . . . if the price of wheat rises we may correctly say, that since wheat commands more grains of gold, either wheat has risen or gold has fallen in value, relative to the other." Now in this relation the commission reach the conclusion that, owing to the improved processes of production

"there has been greater ease of acquisition of both gold and goods . . . but goods have *cheapened somewhat more* than gold; hence the resulting fall of prices."*

This might be logically used to show why wages or the return for human effort should have advanced, but when applied to the price ratio between gold and commodities it gives us a new theorem in mathematics. A process of reasoning is hereby evolved which will allow each side of a ratio to decrease relative to the other at the same time.

Some attention is also given to the "common belief" that one of the causes for the alleged "fall in prices" is the relative scarcity of gold. The theory offered in opposition to this is that

"when people who are hard pressed . . . say that there is not money enough they mean that they do not have wealth or property enough to satisfy their wants. Those who have marketable property have no difficulty in getting money."†

Does this theory accord with the facts? The people who usually make the complaint are those who are in debt; they are not those who have no property, otherwise they would not have had such heavy obligations. They are those who, estimating the value of their property, have incurred *obligations to pay money* which, at the time, were considered safe by both debtor and creditor. Their complaint is not that they have nothing to sell, but that they

* P. 101.
† P. 83.

cannot get as much for what they have as they could at the time of contracting the debt. They complain of the fall in prices, in other words the comparative rise in the value of the standard and the increased difficulty of exchanging their property, or of converting it into means of payment. To such the commission offer the theory that it is not money they need, but property. The debtors appeal to the norm set up by the commission in its first premise. They ask that they may have a standard of deferred payments which will place them in the same relative position at the time when the debt is due that they were in when the debt was contracted. The answer of the commission seems neither to take cognizance of facts nor to be consistent with reason. But since the debtor complains of the injustice of the standard, and cites the fall in prices, or conversely the rise in the value of gold, in justification of his plea, the commission have undertaken to answer him by another line of argument.

The interesting point is, say the commission, that as compared with human labor, gold has depreciated.* "If gold had risen in value relative to both labor and goods there might be some plausibility in the conclusion that it was 'scarce.'" In another place it is indicated that the exchange value of labor has risen because under the improved processes of production the returns on industrial effort have been largely increased and, therefore, in the competitions for efficient laborers the undertaker has been compelled to bid higher for his services. But what has any theory of the increase in the price of labor to do with the question of a standard of deferred payments? Payments for labor are made when the service is complete. They have nothing to do with long time fluctuations. They are practically on the same basis as cash transactions. As shown by the commission in another place, in "transactions which begin and end on the spot," the parties have all the elements to the transactions in hand and therefore no question of justice or

* P. 101.

injustice on account of fluctuations can arise in these. For the purpose of exchange it is largely a question of convenience; the norm of "perfection" is an entirely different one. The conclusion, therefore, that "the great gain to the laborer at the close of the century is the fact that his labor exchanges for more gold; and that in addition gold exchanges for more of the comforts and necessities of life," is quite irrelevant.

If it be true that labor exchanges for more gold and gold for more of the comforts and necessities of life than at the beginning of the century, what then? If the value of the standard had gradually decreased so that the prices of commodities had been twice as high as at the present would not labor, for the same reasons, have been twice as high also? Would not a day's work have purchased exactly the same amount of the comforts and necessities? This whole discussion is not only beside the point, but also illogical throughout. The question as to whether the gold standard places the business man, the one who undertakes an industrial enterprise which requires years to develop, who borrows capital on long time, in relatively the same position as at the time of contracting the debt or undertaking the enterprise is not answered.

Not only has the commission attempted to show by the method above set forth that money is not "scarce," but that there is little or no use for money; that

> "to-day this medium of exchange (credit) is so largely used that over 90 per cent of the large exchanges of the country are performed without the use of actual money;" "that if all persons were of high honor and intelligence, and if the transaction were large enough to warrant the trouble and expense of borrowing at the bank, there would be almost no use at all for actual money in exchanging goods."*

These conclusions rest upon a part only of the facts within the field of investigation. The statement that "over 90

* P. 81.

per cent of the large exchanges are performed without the *use* of actual money,'' loses sight of the immense sums of money used as a basis for this credit. The commission shows that there is $3,210,735,758 of deposit currency. This they would have us believe, ''takes the place'' of so much money. We also have our attention drawn to various other credit devices for doing business. But why are these used? Is it not because all who hold these credit instruments and devices can obtain money on them on demand or when due? Are there not about 25 per cent of ''money reserves'' held against the deposit currency above referred to? Do not some of the largest banks find it necessary to hold from 30 to 40 per cent as reserves in order to be able to meet these demands? Are not these money reserves in use just as much as, even more actively than, the coin in the pockets of the people ''in general circulation?'' The money in the pockets of the people is kept as a reserve to pay their small debts. The money in the vaults is kept to pay the debts of the banker, to his customers in the settlements of large transactions. When they announce the theory above stated they lose sight of these enormous ''money demands'' which are made and which must be met in order to support the credit devices of individuals and monetary institutions.

But time and the patience of the reader will not permit the enumerations and analysis of more of the theories and ''arguments'' employed by the commission in seeking to show that the ''in long periods of time'' the gold standard also meets the requirements of the most perfect standard and therefore should be maintained. In order to follow the methods presented in reaching the other conclusions of the commission, however, as before, we will accept the first proposition as if established.

The second main conclusion of the commission, ''that steps should be taken to insure the ultimate retirement of all classes of government notes,'' follows directly from the first. As shown in the report, the money demands

upon the standard supply are greater than can be continued with safety. The demand obligations of the various kinds of representative money alone, at the time of last official information,* were about as follows: Silver dollars in circulation, $61,491,073; subsidiary silver, $65,720,308; gold certificates, $36,557,689; silver certificates, $376,695,-592; treasury notes of 1890, $103,443,936; United States notes, $262,480,927; currency certificates, $43,315,000; national bank notes (redeemable at the treasury of the United States), $223,827,755; making a total of "representative money" for which gold could be demanded of $1,183,-532,280. To meet these demand obligations the government held in the treasury $197,469,236.† Considering all of these facts the commission reached the conclusion "that the most serious evil affecting our present monetary system is the threatened degradation of the standard;" that "the first need of the situation is to fortify that standard." Granting the first main conclusion as a premise, viz., "that the gold standard should be retained," and this second conclusion is inevitable.

How is this standard to be fortified? Cut down the money demands. In the judgment of the commission the demand obligations of the "representative" forms of money are fully $400,000,000 too large; the "United States notes" are the most objectionable form outstanding; therefore by retiring these and a small part of the silver obligations, the standard will be safe. A statement of the amount of "representative money" which it is necessary to retire to protect the standard from this form of demand is a question of judgment and expediency which we cannot here go into. But assuming that the judgment of the commission is well founded, does their conclusion that, by retiring the "notes"

* "Monetary Report," p. 87.

† There were also about $195,000,000 of gold on deposit in national banks, but as about this amount would be required to be kept there to supply the demands of its customers, any attempt on the part of the government to get at this supply through note redemptions, would probably be met by counter demands on the treasury through the other forms of demand obligations.

and the prescribed quantity of silver, the standard will be safe, follow? If this conclusion is to be accepted then it must appear that they have taken account of all of the demands which threaten the safety of the standard. A careful examination of the report will show that they have taken into account the demands of "representative money" for redemption, but have entirely ignored the "legal tender" demands; not only have they ignored this class of demands on the standard, but in places have even gone so far as to deny its existence. Before reaching the conclusion that a retirement of the greenbacks would make the standard safe against degradation, should they not have considered whether the $3,210,735,758, of deposit currency constitutes a demand; whether the bank discounts of something like $3,000,000,000 would in any manner look to the standard for support; whether the various forms of collateral security held in banks, and which must be liquidated, would add to the strain? Should not the principal and interest of public debts which must be met, the large volume of private accounts (many times larger than the bank obligations), payable on demand and which in times of financial strain are demanded, the time obligations of private parties, the demand obligations to labor, the stated dues on insurance, interest, assessments, etc., should not all of these forms of money demands at least receive a fair consideration before dogmatically declaring the result? In this relation have they not overlooked the whole credit system?

It may well be, if we are to retain the gold standard, that the proposed "plan" does not go far enough. In times of monetary stress, the United States ought to be in the best possible position to obtain gold, and that end can be best attained when the money in circulation—*i. e.*, in the pockets of the people and in the vaults of banks—is gold instead of silver and other forms of demand obligations for gold.

Again, in considering the various arguments for "retirement," we find them wanting in continuity. Looking

to this we find that the main argument, the fundamental theorems used by the commission in establishing the expediency of retiring the demand notes, is almost entirely lost in a confusion of side lights. One must look through the entire volume to find the underlying argument. The arguments which are given a prominent place pertain to subjects quite foreign to the main issue. For example, a chapter is given to the effect of paper issues upon wages during the civil war. It is difficult to see just what bearing a discussion of wages during a period of "depreciated paper" has upon any issue presented. Another chapter is devoted to the effect of paper issues on prices during the civil war. Again we ask, what has the question of prices, quoted in a depreciated paper currency, to do with the subject in hand? One part of the argument is pertinent, viz., that part which relates to the "alleged contraction." It appears desirable to show that the retirement of notes would not cause a further fall of prices. To this end the report seeks to show that the fall in prices after the civil war was not in any manner due to contraction. Its method is to assign another cause for the price movement. In so doing the commission have taken a position diametrically opposed to that assumed in the main discussion on the subject of the standard. The argument is here as follows:

"The real cause . . . was not an imaginary contraction, but the serious change which was taking place in the value of the standard itself. . . . At the close of the war prices were expressed in terms of a currency which had suffered heavy depreciation. As conditions became more settled and the credit of the government rose, the value of its promise rose correspondingly. This merely amounted to a continual change in the standard, and entailed the usual injurious consequences upon those who had made contracts at the time when paper was more heavily depreciated. . . . The value of a dollar in greenbacks had been steadily rising, and, by the middle of 1867, had reached seventy-one cents in gold. The result of all this had been a decrease in prices."*

* P. 418.

The contrast is striking between the theories employed in support of the "single gold standard" and those here used relative to the "government credit standard." In the former case it was said that the fall in prices was due to decreased cost of production; that the margin of difference due to the fall was an "unearned increment;" that the fall in prices caused no injustice to anyone and in fact was a "great gain to the laborer." In the latter case the fall of prices is considered a "cause of suffering" which entailed "great disorder in business," and "the usual consequences upon those who had made contracts at the time when paper was more heavily depreciated." This "suffering" and these "usual consequences" it is said, were "due to a change in the value of the standard." By an evolution of thought in the minds of the commission which we will not here attempt to explain, the gradual fall of prices from the time of greatest depreciation in paper until 1879, is viewed as a most serious misfortune, while the like downward movement of prices from 1879 to the time of writing the report is held to be not only *just* but a *blessing*. Does the conclusion that contraction did not affect prices follow from the premises? Granting that the increasing value of the paper standard had the effect of continually lowering prices, what was the course of gold prices at the time? There was in fact a contemporaneous decline in gold prices, though at a less rapid rate. The commission not only take a paper standard as a premise for a conclusion relative to gold prices, but ignore entirely the fluctuations in gold prices. They arrive at the conclusion that the price fluctuations were not due to retirement of notes.

In discussing the effect of paper issues upon prices, the statement is made that during the war

"the issues of an irredeemable government currency destroyed the existence of the former gold standard and substituted for it a standard of government paper—a standard consisting only of the government's promise to pay." "We often speak," says the report, "as if the

paper currency issued by the government had some value of its own. This is not the case."*

Later, in dealing with the same subject, we read that "the *value* of the legal tender note was, in short, regulated by the same forces which controlled that of any other form of government debt."†

Now in the light of these statements may it not be pertinent to ask which theory has the greater weight with the commission—the one which holds that paper money has no value, or the one which assumes that it has value?

Another example of the method employed appears in the discussion of the bond issues of 1894–96. It is asserted that the government received "some $40,000,000 less than the amounts for which the same bonds could have been sold a few years earlier,"‡ because "for some reason," the credit of the government was impaired and confidence in its ability or intention to pay had been lost. Does the theory explain the facts? Is any account taken of the increased value of money? Do investors usually pay a premium on low rate securities of any kind where the credit of the debtor is impaired and "confidence lost" in the ability or intention to pay?

We pass to the next consideration, the third main proposition of the commission, "that a banking system be provided which should furnish credit facilities to every portion of the country," etc.

Thus stated, the proposition would be accepted without argument. But it is not primarily to establish this principle but to draw conclusions from it which is the purpose of the commission. After postulating what a banking system should do, the commission seek to show that the proposed system will do this better than any other, and hence it should be adopted. It is with the methods employed to establish the second premise that we are concerned.

* P. 466.
† Ibid.
‡ P. 483.

Their first effort is directed toward a theory of banking which will be in harmony with the conclusions of the preceding parts of the report. It seems desirable that the credit system shall not appear to make heavy demands on the standard. The arguments employed relative to "prices," the alleged "scarcity" of money, etc., forbid. Then, too, the principal reason for urging the retirement of government notes is that the token and other monetary demands must be reduced so that the monetary system, supported by the single gold standard, will not fall by reason of its own weight. If the credit system also constituted a heavy demand upon the standard, *i. e.*, upon legal tender money, difficulties would multiply. The commission meet this issue by employing a theory of credit and banking which avoids it. This theory is that banking is a process of "coining property." Banks are conceived of as institutions which estimate the values of marketable goods, or property, in terms of the standard and then issue a currency of their own based, not on money, but on this property. Credit is viewed, not as a demand for money, but as a "title" to property.

"The operations of legitimate banking," say the commission, "are based on property." "A man having property can borrow upon the strength of it, get the value of that property converted into means of payment, and exchange it for other forms of property."*

The banking process is illustrated as follows:

"A manufacturer may have a stock of hardware, and yet he needs a means of payment at the present moment. If he has sold goods on ninety days' time and needs means to pay a note maturing to-morrow . . . . he can present his evidence of sale of this property to a bank and get it changed into means of payment. The value of goods expressed in terms of money (the common denominator) is by the bank converted into means of meeting obligations so that goods may be exchanged against goods."†

* P. 163.
† P. 168.

It will not be denied that transactions of this nature do take place. But such a theory relegates the business of banking to the scope of the pawnbroker or the chattel mortgage loan agency. Generally speaking, the bank has little to do with "titles" to property. Its main business is dealing with demands for money. Very often a business man may wish to obtain means of payment before his "bills receivable" that have arisen out of property exchanges come due, and these are turned over to the bank. But these "bills receivable" usually are not "titles" to property and, moreover, the bank does not become the owner of them. They are usually taken as collateral; in case they are paid when due, the amount received goes to liquidate the debt of the borrower; in case they are not paid, the borrower is at once notified by the bank that his collateral has not been honored. But when we have accounted for the chattel mortgage loans and the bank loans based on collateral, there are still a large number of transactions that remain unexplained and unaccounted for—transactions which have nothing to do with goods (expressed in terms of the common denominator and then represented on paper in such a manner that they may be exchanged against other titles to property). By referring to the report of the comptroller it will be found that about 50 per cent of the loans made by the New York banks are on paper without any collateral, and a large part of these are on paper unendorsed. Under a theory that banking is a coinage of property how are these transactions to be classified? This theory either fails to take into account more than a small part of the operations of a bank or else it is so highly figurative as to be misleading. It certainly lends nothing to an understanding of the facts of banking, nor does it contribute to systematic thought on monetary problems.

In order to fortify the position that the credit system does not constitute a demand on the standard, it is affirmed that

the legal tender quality does not affect the value of the standard commodity.

"It should be learned," the report has it, "that a commodity or standard holds its value quite independent of the fact that it is given legal recognition."*

Yet elsewhere it would appear that the standard is created by giving the legal tender quality to a certain kind of money. This at least is, the theory which underlies the discussion of the paper standard used during the civil war.

Another instance of the arguments of the report may be cited from its discussion of bank issues. It is evidently desirable to overcome the common belief that banks make a profit out of the issue privilege. "To assert that the banks make a profit out of the notes issued," it is affirmed, "is sheer ignorance of banking."† The logical processes employed to correct this erroneous concept is worthy of notice. The commission first present an analogy between the obligations arising out of bank deposits and bank notes. From this analogy it is concluded that bank notes and bank deposits are identical. Upon this hypothesis of the "identity of the note and deposit" a comparison is instituted between two banks of like capital, the one enjoying the issue privilege under the present National Bank Act and the other not having this privilege. The illustration‡ is so singular that it may be given in full:

I. NOTES AND NO DEPOSITS.

Bonds at 3 per cent	$107,861	Capital	$100,000
Loans at 10 per cent	68,639	Notes	90,000
5 per cent redemption fund	4,500		
10 per cent reserve	9,000		
	$190,000		$190,000

* P. 133.
† P. 186.
‡ P. 190.

I. NOTES AND NO DEPOSITS—*Continued.*

Income:		
On bonds	$3,235.83	
On loans	6,863.90	
		$10,099.73
Deduct special expense on notes		958.65
Net income		$9,141.08

II. DEPOSITS AND NO NOTES.

Loans at 10 per cent	$176,500	Capital	$100,000
15 per cent reserve	13,500	Deposits	90,000
	$190,000		$190,000

Income in loans	$17,650.00
Deduct net income above	9,141.08
Balance in favor of second plan	$8,508.92

The conclusion is that "the advantage in favor of the deposit system is thus $8,508.92."* The palpable absurdity of the illustration and the conclusion is such that comment may be brief.

In the first case we have an original investment of $107,861. This capital is invested in government bonds at 3 per cent. But under the law the banker is allowed to deposit this first investment as security and receive $90,000 in notes which, less legal reserve, he can again invest at 10 per cent. In the second case we have an original capital of $190,000—$100,000 of the banker's money and $90,000 procured from others without in any manner investing the first $100,000. By law the banker may invest $176,500, which he loans at 10 per cent. The fallacy appears in assuming that there is the same amount of active capital in each case. Leaving out of consideration the minor details, the comparison is between an active capital of $107,861, and $176,500, instead of two capitals of $100,000 each.

Why did they not argue that if there were two banks possessing $100,000, one having $90,000 in notes and no

* P. 191.

deposits, while the other had $500,000 deposits and no notes, the second would make larger profits. It would have been equally true and equally irrelevant to the question whether bank notes afford a profit.

Passing over this remarkable slip we may note that the doctrine that bank notes afford no profit, finds no place in the chapter on circulation secured by bonds. Here it is held that the present system is inelastic because the amount of notes issued depends not in the accommodation of the public with a suitable currency, but on which investment is the more profitable at a given price for bonds. If bonds are high then the banks sell, for they can more profitably invest in other securities; if they are low banks may derive a larger income by investing in these low rate government securities and then issuing notes thereon. How does the commission harmonize this position with the one taken above?

As already stated I would not be understood as opposing the plan or the conclusions of the commission. Every proposition may be worthy of adoption; every conclusion may be true to the best interests of the nation. It is only affirmed that the arguments of the commission do not justify its conclusions; that in so far as the report deals with preconceived theories and conclusions, their exposition of facts has been partial and is inadequate to furnish a safe basis for reasoning; that the theories employed as premises have not explained the facts and phenomena within the field of inquiry; that the processes of reasoning are illogical, and therefore, however true the conclusions, their truth or falsity does not appear from the report.

It is much to be regretted that such is the case. The time is one in which citizens of a common country in a common cause are considering problems of deepest import to the welfare of the nation. A carefully compiled statement of facts on the subject of money and banking, in itself, would have been of inestimable service. Having the facts

necessary to a mastery of the subject well in hand, or within easy reach, the commission might have evolved a body of thought which would give a proper understanding of the facts. This done, a "sound" system of money and banking might be adopted by the government, having such popular sanction as to make it "permanent."

In the report there is a large fund of information collected; also many suggestions of value are made. In so far as the commission have not appeared conscious of an imperative necessity to support some preconceived opinion or theory, the report may be considered as a valuable contribution. Their exposition and discussion of our present monetary system, of the functions of money, the banking principle, note issues based on commercial assets, elasticity, redemption, uniformity of note issues, bank reserves, inspection and examination, the guaranty fund, insolvency of banks, branch and small banks, the retirement of government notes, etc., in the main, are of a high character. The only danger to be avoided in reading the report is that encountered by the commission themselves—that of a failure to discriminate between facts and arguments selected and directed toward an end, and a scientific investigation of all of the conditions of business and finance, leaving theories and conclusions to follow as a logical result.

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